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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 97-140
Local Exchange Carriers' Payphone Functions and Features	)	
	)	
Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 1	)	Transmittal Nos. 962 and 966
	)	
GTE System Telephone Companies Revisions to Tariff F.C.C. No. 1	)	Transmittal No. 206
	)	
GTE Telephone Operating Companies Revisions to Tariff F.C.C. No.1	)	Transmittal No. 1095

GTE's REBUTTAL

The GTE Systems Telephone Companies ("the GSTCs") and the GTE Telephone Operating Companies ("the GTOCs") (collectively, "the GTE companies"), with regard to the Commission's Order Designating Issues for Investigation in the captioned matter, DA 97-1764 (released August 19, 1997) ("the *Designation Order*"), specifically paragraphs 6-7 and 12-16 concerning the GTE companies, and in response to the Opposition filed September 10 by the American Public Communications Council ("APCC"), hereby submit this Rebuttal.

BACKGROUND

Paragraph 14 of the *Designation Order* expresses concern that the direct investment of the GTE companies is "significantly higher than the direct investments reported by other LECs [Local Exchange Carriers]." On this basis paragraph 14 of the *Designation Order* "tentatively conclude[d] that GTE's direct investment of $50 per line for SCOCS [Selective Class of Call Screening] is unreasonable." Accordingly, GTE was directed "to provide detailed information regarding its derivation of the unit investment of $50 per line for SCOCS." *Id.*

GTE's Direct Case explained the circumstances under which GTE prepared the calculation supporting its original tariff filing, and explained the replacement tariff provision (subsequently submitted as a tariff revision) that revised certain assumptions and based thereon revised pricing for the GTE companies so that the revised switching investment estimate is $6.00 per line per year and the revised pricing is as shown in Exhibit 2 to GTE's Direct Case. The tariff page that was Exhibit 2 to GTE's Direct Case has been duly filed with the Commission amending the appropriate the GSTCs /GTOCs tariff. Based on a $5.00 NRC rate for every state -- which eliminates the large state-to-state NRC variations mentioned in *Designation Order* at paragraph 15 -- the new monthly recurring rates would now range from $ .27 to $.33 a month, as compared to the original range of $1.07 to $2.02 a month.

DISCUSSION

A correct reading of GTE's calculations eliminates the problems misperceived by APCC.

APCC continues to challenge the revised rates for the GTE companies. Their Opposition misunderstands GTE's cost studies and is as a result highly misleading. Specifically, APCC's Opposition on page four incorrectly states that GTE is proposing an approximately 200% overhead loading ratio (price/unit cost)"; and goes on to say that GTE's proposed NRC of $5.00 "seems excessive in relation to the low annual cost ascribed to the service."

Referring to Exhibit 1 to GTE's Direct Case, and specifically to the very first page, *i.e.*, the calculations for Arkansas (for illustrative purposes -- the same will apply to all the states), the total annual cost shown on line 31 includes all costs. This means *fully allocated cost*, including the FCC-prescribed 11.25 percent return shown on an annual basis. Referring to the heading "Total Annual Cost" (lines 22 through 30, summarized in line 31), these lines include costs involved in processing the service order, along with an annual expense derived from the switching investment. All of these costs are recoverable under the Commission's rules.

Taking the Total Annual Cost at line 31, as shown for Arkansas, this is the amount of $4.19. Dividing this $4.19 annual cost by twelve results in approximately thirty-five cents per month. But this thirty-five cents includes cost being recovered by the NRC; when we take account of the $ 5.00 NRC rate this reduces the monthly cost to the price shown in the filing, <u>twenty-eight cents per month</u>.

It appears that APCC mistakenly based its calculation of a 200% overhead cost on the unit cost displayed on line 36, "Unit Cost", *i.e.*, eight cents, but this Unit Cost figure is neither complete nor fully allocated. The eight cents of line 36 merely represents the expense associated with switching investment, and therefore excludes such items as order processing and software expenses. GTE incurs appropriate and recoverable expenses associated with customer contact, order processing, customer billing and other items not associated with the central office investment.

When this misreading of GTE's calculations is corrected, the second item raised by APCC is quickly disposed of. Using the wrong monthly cost figure, eight cents, the $5.00 NRC might indeed "seem[] excessive in relation to the low annual cost ascribed to the service." But this apparent anomaly disappears when we realize the appropriate monthly cost figure is twenty-eight cents.

ACCORDINGLY: The GTE companies respectfully submit that they have made the requisite showings; asks the Commission to terminate this investigation upon the effective date of the implementing tariff filing; and asks the Commission to eliminate the related accounting order referred to in paragraph 1 of the *Designation Order*.

Respectfully submitted,

The GTE Systems Telephone Companies and
the GTE Telephone Operating Companies

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Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Rebuttal" have been mailed by first class United States mail, postage prepaid, on September 17, 1997 to the parties listed below:

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